

## **Council on Postsecondary Education**

### **2002-04 Endowment Match Program Guidelines**

#### **Background**

Kentucky recognizes the importance of research to the economic well being of its citizens. The Endowment Match Program encourages private investment in public higher education research activities to stimulate business development, generate increases in externally sponsored research, create better jobs and a higher standard of living, and facilitate Kentucky's transition to a knowledge-based economy. The program matches public money with private gifts to fund chairs, professorships, research staffs and infrastructure, fellowships and scholarships, and mission support at the public universities. This collaborative approach is critical to advancing Kentucky's research presence into national prominence.

State funds for the program are appropriated to the Research Challenge Trust Fund (RCTF) for the research institutions and to the Regional University Excellence Trust Fund (RUETF) for the comprehensive institutions. Both trust funds were created with the passage of the Postsecondary Education Improvement Act of 1997 (HB 1).

The Endowment Match Program received surplus General Fund appropriations of \$110 million in 1998-99 and \$120 million in 2000-01. The legislature debt funded another \$120 million for the program in 2003-04.

#### **Program Administration**

The Council on Postsecondary Education oversees the Endowment Match Program. The Council establishes the areas of concentration within which program funds are used, develops guidelines for the distribution of program funds, and reviews reports from the institutions on the use of funds and the results achieved.

The boards of trustees and boards of regents of the Commonwealth's public universities are responsible for the Endowment Match Program on their campuses. The boards are to review and approve all donations, gifts, and pledges that will be used to establish new endowments or expand existing endowments for which matching state funds will be requested. The boards are to ensure that the purpose of the endowment and the source of funds comply with the Council's guidelines and serve the public good. Documentation of board approval must be submitted with each endowment request. In addition, the boards are to review and approve the Endowment Match Program reports that are to be submitted annually to the Council.

## **Allocation of Program Funds**

The legislature appropriated \$120 million for the Endowment Match Program in 2003-04. Of that amount, \$100 million was appropriated to the RCTF and \$20 million was appropriated to the RUETF. These funds will be allocated to the institutions as follows:

- The research university endowment match will be allocated two-thirds to the University of Kentucky (\$66,667,000) and one-third to the University of Louisville (\$33,333,000).
- The comprehensive university endowment match will be divided into two \$10 million pools designated primary and secondary. Each pool will be allocated among the institutions based on their proportionate share of total net 2002-03 General Fund appropriations.
- The primary pool will be allocated to the institutions and will remain in the trust fund until matched. The secondary pool will be similarly assigned to the institutions until December 31, 2004. If not matched by that date, other comprehensive universities that have fully matched their allocations from both pools may submit requests for additional matching funds. Funds requested from January 1 to January 31, 2005 will be matched on a pro rata basis based on the dollar amount of requests received. For example, if the secondary pool contains \$100,000 on January 1, and four institutions submit requests of \$50,000 each to the Council between January 1 and January 31, then each institution would be eligible to receive \$25,000 in state matching funds ( $\$50,000 / \$200,000 \times \$100,000$ ). After January 31, requests will be

considered on a first-in basis until all funds are allocated. If multiple requests arrive simultaneously, then the pro rata method described above will apply.

## **Matching Requirements**

The Endowment Match Program is conceived as a way to bring new money from external sources into the Commonwealth's system of postsecondary education. In order to receive state funds, the universities must provide dollar-for-dollar matching funds that satisfy the following requirements:

- Gifts and pledges must be newly generated to be eligible for state match. Newly generated contributions are those received by the university after June 1, 1997 (i.e., the approximate effective date of postsecondary education reform).
- Gifts and pledges must be from external sources to be eligible for state match. External source contributions are those that originate outside the university and its affiliated corporations. Eligible sources of funding include, but are not limited to, businesses, non-governmental foundations, hospitals, corporations, and alumni or other individuals. Funds received from federal, state, and local government sources are not eligible for state match (effective for gifts and pledges received after October 1, 2003).
- General Fund appropriations and student-derived revenues (e.g., tuition and fees revenue) are not eligible for state match.
- The minimum institutional request amount is \$50,000. A university may combine smaller donations from businesses, nongovernmental foundations, hospitals, corporations, and alumni or other individuals to meet the \$50,000 minimum.
- All funds, both state and private, must be endowed. "Endowed" means only the investment earnings are eligible for expenditure, not the principal.

- Requests for state funds must identify the matching funds that are cash and the matching funds that are pledges.
- Pledges, or promises of future payment, are eligible for state match provided they are based on a written contract or agreement and include a payment schedule, which does not exceed five years from the initial pledge date. Pledge payment schedules showing receipts to date and scheduled future payments are to be included in the audited financial statements of either the institution or the foundation.
- If pledged funds are not received within five years of the initial pledge date, the university must replace the portion of private funds not received with another eligible cash gift or the unmatched portion of the state funds plus an allowance for accrued interest will revert to the trust fund for reallocation. In such cases, time frame for the replacement or return of state funds will be negotiated between Council staff and institutional representatives.
- University officials must notify the Council staff of unpaid pledges six months before the end of the five-year deadline, or immediately when a gift has been revoked.

## Uses of Program Funds

Investment earnings from the endowments can be used to support various activities including chairs, professorships, research scholars, research staff, graduate fellowships, undergraduate scholarships, research infrastructure, and mission support as described below.

**Chairs:** New faculty positions, salary supplements to existing faculty positions, and associated expenses for those positions, including start-up costs, salaries, benefits, travel, and other professional expenses as permitted by university policy.

**Professorships:** New faculty positions, salary supplements to existing faculty positions, and associated expenses for those positions, including start-up costs, salaries, benefits, travel, and other professional expenses as permitted by university policy.

**Research Scholars:** Salaries, benefits, and other personnel related expenses associated with non-tenured, medical school faculty who exhibit the potential to assume chair or professorship positions once tenure has been awarded. Research scholars should have clearly defined research agendas that relate specifically to the fields of study envisioned for the ultimate occupants of the chairs or professorships. Funding for this purpose is time limited. Each research scholar may be supported with endowment proceeds for a maximum of six years. At the end of that time, if the research scholar has not been appointed to the identified chair or professorship, university officials should fill the position with an appropriately qualified, tenured faculty member. Research scholar funding is permitted on a trial basis, for 2002-04 appropriated funds only. The results achieved will be evaluated to determine if research scholar funding will be continued or modified.

**Research Staff:** Salaries, benefits, and other personnel related expenses associated with full-time or part-time staff assistants who are directly linked to the research activities of an endowed chair or professor.

**Graduate Fellowships:** Fellowship stipends for outstanding graduate or professional students, which may include travel and other expenses as permitted by university policy.

**Undergraduate Scholarships:** At the comprehensive universities only, program funds can be used to support scholarships for outstanding undergraduate students, which may include travel and other expenses as permitted by university policy.

**Research Infrastructure:** Start-up and operating expenses that are directly linked to the research activities of an endowed chair or professor, including equipment, materials and supplies, and other research related expenses as permitted by university policy.

**Mission Support:** Program funds can be used to support research and graduate missions at all institutions, and programs of distinction or applied research programs approved by the Council at the comprehensive institutions. Consideration will be given to mission support activities such as: (1) expenditures that enhance the research capability of university libraries (i.e., books, journals, research materials, media, and equipment); (2)

start-up costs, equipment, and supplies that support faculty, graduate student, or undergraduate student research activities; (3) funding for visiting scholars, lecture series, and faculty exchange; and (4) expenditures for the dissemination of research findings (i.e., nationally prominent publications and presentations at conferences, symposiums, seminars, or workshops). However, priority will be given to mission support expenditures that encourage the research related activities of faculty and students. Expenditures for general personnel expenses that are not directly linked to an endowed chair or professor do not qualify as mission support activities.

## **Use of Funds Requirements**

The following requirements apply to gifts and pledges received after October 1, 2003. However, requests submitted for unclaimed, secondary-pool comprehensive university funds will adhere to these requirements regardless of when the gifts and pledges contained in those requests were made.

- At the research universities only, at least 70 percent of program funds must be endowed for the purpose of supporting chairs, professorships, or research scholars, staffs, infrastructure, or fellowships that are directly linked to the research activities of an endowed chair or professor. No more than 30 percent of program funds may be endowed for the purpose of supporting mission support activities or fellowships that are not directly linked to the research activities of an endowed chair or professor. In addition, the number of research scholars funded through the match program may not exceed 10 at the University of Kentucky and 5 at the University of Louisville. These numbers represent 20 percent of the number of filled match program chairs and professorships housed in each university's medical school as of July 1, 2004.
- At the comprehensive institutions only, at least 50 percent of program funds must be endowed for the purpose of supporting chairs, professorships, or research staffs, infrastructure, fellowships, or scholarships that are directly linked to the research activities of an endowed chair or professor. No more than 50 percent of program funds may be endowed for the purpose of supporting mission support activities or fellowships or scholarships that are not directly linked to the research activities of an endowed chair or professor.

## Areas of Concentration

- At the research universities only, the Council expects state and private matching funds to be substantially directed toward supporting research that leads to the creation, preservation, or attraction of businesses that will increase the number of good jobs in Kentucky. For these purposes, “good jobs” are defined as jobs that yield income at or above the national per capita income.
- The Council recognizes that strong research programs are clustered around related academic disciplines and encourages campus officials to create a critical mass of scholars who can influence the nation’s research and academic agenda.
- The Council recognizes that the boundaries of traditional disciplines are increasingly permeable and encourages the use of endowment funds for interdisciplinary, problem solving, or applied research activities.
- The Council recognizes the importance of cooperation between universities and corporations and encourages partnerships in the technologies, engineering, and applied sciences.
- At the research universities only, at least 70 percent of program funds must be endowed for the purpose of supporting Research Challenge programs or academic disciplines contained within five new economy clusters: (1) human health and development; (2) biosciences; (3) materials science and advanced manufacturing; (4) information technologies and communications; and (5) environmental and energy technologies. These areas are of strategic benefit to Kentucky and are core components of the knowledge-based economy
- At the comprehensive universities only, at least 50 percent of program funds must be endowed for the purpose of supporting Programs of Distinction or academic disciplines contained within the five new economy clusters (see paragraph above). Applied research programs outside the new economy areas that address local or regional economic and community needs will also be

considered, subject to Council approval (effective for gifts and pledges received after October 1, 2003).

- The Council recognizes the contribution of arts and humanities to quality of life and to economic development in the Commonwealth and is receptive to limited use of endowment funds in this area.
- Program funds cannot be used for positions that are primarily administrative. However, researchers or scholars with an active research program who may have an appointment such as department chair, center director, or dean are eligible.
- Program funds cannot be used to fund capital construction projects.

## **Program Diversity**

The Council on Postsecondary Education and participating universities are committed to ensuring the gender and ethnic diversity of Endowment Match Program faculty, professional staff, and financial aid recipients. The universities shall develop and implement plans calculated to achieve reasonable diversity in the recruitment and retention of women, African Americans, and other underrepresented minorities for positions funded by the Endowment Match Program, including scholarship and fellowship recipients. In addition, the universities shall report annually to the Council on Postsecondary Education the race and gender of program faculty, professional staff, and financial aid recipients.

## **Annual Reporting**

Institutions will provide detailed annual reports describing how the state and matching funds are used by October 15 each year. These reports will include such items as the number of endowed chairs and professorships by name and incumbent, the specific support services attached to the chairs and professorships, the gender and race of program faculty, professional staff, and financial aid recipients, and the benefits of the program to the Commonwealth of Kentucky in



terms of jobs, revenue growth, creation of wealth, and improved standards of living. The reports should also identify institutional outcomes, such as increases in sponsored research directly attributed to the program, changes in the quality of students and measurable outcomes (retention, graduation, pursuit of advanced study, and employment), and the creation and profitable use of intellectual property.

The Council staff, working with the university presidents and their staffs, will devise and maintain reporting procedures that specify the content and format of Endowment Match Program annual reports.

## **Addendum**

### **2002-04 Endowment Match Program Guidelines Applied Research Program Criteria**

#### **Introduction:**

The Kentucky Postsecondary Education Improvement Act of 1997 (HB 1) gives CPE the responsibility to develop the criteria and processes by which institutions may apply for funds appropriated to individual Strategic Incentive and Investment Trust Funds. In June 2004, the CPE staff, working in conjunction with university officials, developed the following set of criteria that can be used to determine if a program is eligible to receive “applied research” status through the Endowment Match Program.

#### **Program Criteria:**

- A proposed program should be a single disciplinary or interdisciplinary applied research program or a limited number of such programs in a related field of study.
- The number of applied research programs at each institution that receive funding through the match program should be limited. No more than three programs at each institution will be eligible to receive match program applied research status. Applied research programs contained within an institution’s Program of Distinction will not count toward the three-program limit.
- A principal objective of the RUETF is to develop a complementary array of instructional and applied research programs across the state. Given this aim, a proposed program should complement existing programs of distinction and applied research programs at other comprehensive universities.

- The research produced by a proposed program should offer potential for innovation and commercialization, or address pressing needs of the community, the region, or the Commonwealth.
- Applied research is encouraged in areas that:
  - Raise the region's standard of living, education, and training
  - Address local or regional economic and community needs
  - Aid efforts to improve local government and services
  - Enhance public schools
- A proposed program should enhance the quality of education and the educational experience at the university, where possible involving students in research initiatives and community partnerships through internship, co-op, and service learning programs.
- The process for selecting an applied research program should provide for broad participation of the board of regents, faculty, and other university constituents, as appropriate.
- A proposed program should contribute to the university's overall mission and strategic plan.